IMPACT OF HARMONIZATION ON SASKATCHEWAN

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INTRODUCTION

INTRODUCTION

On February 20, 1991, the Government of Saskatchewan announced that it would harmonize the Education and Health (E&H) Tax with the federal government's Goods and Services Tax (GST).

The first stage of sales tax harmonization involved the expansion of the E&H Tax base on April 1 of this year, together with the introduction of the Family Tax Credit. The first payments under the Family Tax Credit have recently been received by Saskatchewan families earning modest incomes.

Beginning on January 1, 1992, the Government will be replacing the E&H Tax with a provincial sales tax that is fully harmonized with the federal GST. This stage will involve further tax base expansions and the introduction of a multi-staged tax that provides "input tax credits" for Saskatchewan-based businesses (see Appendix A).

Like any government initiative, sales tax harmonization was not made in isolation of the events that set the stage for the initiative. The context of the February 20 announcements can be summarized in four points:

- the January 1, 1991 introduction of the federal government's GST created a "dual sales tax environment" in the nine provinces with provincial sales taxes;

- the Province of Saskatchewan agreed to participate in the new long-term support programs for agriculture, GRIP and NISA;

- Saskatchewan-based businesses must compete in a highly competitive environment that demands a competitive tax system; and,

- the pre-budget consultations with people across Saskatchewan had demonstrated clearly that people wanted the provincial deficit and provincial debt reduced in a responsible way.

Dual Sales Tax Environment

The federal government's introduction of the GST created a "dual sales tax environment" in Saskatchewan that caused confusion for both businesses and consumers. In response, the Government of Saskatchewan did what it could to remove the confusion of having two sales tax systems operating in tandem.

Removing confusion at the cash register is important enough but it is not the only reason to harmonize the E&H Tax with the GST. Harmonization will reduce administrative costs for both businesses and government. It will also remove the provincial sales tax from business input costs through the provision of provincial input tax credits for taxes paid on these costs. This will improve the competitiveness of the Province's economy.

In announcing harmonization of the E&H Tax with the GST, the Government was following the advice of the Saskatchewan GST Advisory Committee which, first and foremost, recommended that the Province participate in a joint federal-provincial sales tax as soon as possible. The earliest possible date for this to occur is January 1, 1992 and that is our start date.

Competitive Tax Environment

The business environment continues to become more competitive both domestically and internationally. Business decisions are based upon many factors, but none more important than the cost to invest.

Saskatchewan's current tax system places a heavy burden on businesses wanting to invest in Saskatchewan. Unlike Alberta, Saskatchewan levies an effective sales tax rate of about 3 to 4 per cent on the cost of investment.

In 1992, sales tax harmonization will permit the introduction of input tax credits for businesses. This will lower the sales tax rate on investment and on exported products to zero, thus creating a competitive tax environment for business investment.

Support for Agriculture

The Province of Saskatchewan has entered into a partnership with farmers and the federal government in order to establish a long term safety net for agriculture through the introduction of GRIP and NISA. The Government of Saskatchewan views these programs as absolutely necessary to the on-going stability of the Province's agricultural community.

GRIP and NISA, together with the recently announced "third line of defence" of our agricultural community, will inject over a billion dollars into the provincial economy in 1991-92. This will generate greater economic activity not only on the farm but in rural and urban communities right across the Province which rely on the support of farmers, farm families and rural people for their business success.

Responsible Fiscal Management

Agreement to participate in GRIP and NISA meant that, without compensating changes to existing tax and expenditure policies, the Government's contribution to these programs' premiums would have added $125 million to the Saskatchewan deficit in 1991-92. This would have been contrary to the advice received from people from all regions of the Province.

The 1991-92 Saskatchewan Budget demonstrates this Government's commitment to managing the Government's spending programs in a responsible way that protects Saskatchewan's health care, education and social programs. The reduction of spending programs by a further $125 million at this time would have been an irresponsible approach to managing these spending programs.

Therefore, to prevent the contributions to GRIP and NISA from adding to the provincial deficit and the debt, the Government chose two courses of action. The first was the tax base expansions to the E&H Tax for 1991, in combination with the introduction of the Family Tax Credit. The second was the decision to keep the E&H Tax rate at 7 per cent after January 1, 1992.

The tax base expansions for 1991 will raise the necessary funding for GRIP and NISA. In addition, they generally mirror the GST tax base in such a way that most items in convenience stores and department stores are taxed consistently by both the GST and the E&H Tax, thereby reducing confusion at the cash register in those establishments during the transition.

The Government of Saskatchewan has also made a commitment that revenues from harmonization that exceed the Province's contributions to GRIP and NISA will go directly to reducing the deficit and the debt.

ECONOMIC BENEFITS

FROM HARMONIZATION

ECONOMIC BENEFITS FROM HARMONIZATION

INTRODUCTION

The GST's Economic Rationale

The old federal Manufacturers' Sales Tax limited Canada's potential for economic growth and job creation. Its major disadvantages were:

- it discouraged investment by taxing capital goods and other business inputs;
- it favoured imported goods over domestic goods because the former were taxed on their customs duty-paid value which excluded marketing and distribution costs in Canada, while the latter were taxed on the basis of their factory gate price which included marketing and distribution costs; and,
- it led to a misallocation of resources because of the myriad of base exemptions and varying tax rates.

Most tax experts and economists believe that the GST represents a vast improvement over the Manufacturers' Sales Tax. The improvement results from three changes:

- it removes the sales tax burden from capital goods, other business inputs and exports;
- it treats imports and domestic products equivalently; and,
- it brings the effective tax rates on consumer products closer together since it is a single rate, applied at the retail level (although the tax is collected on a multistage basis).

The GST, or value added tax as it is known in other countries, is an internationally accepted form of taxation. Over 50 countries, including New Zealand, the United Kingdom, France, Germany, Belgium, the Netherlands and Italy, have a value added tax.

The GST places Canadian businesses on equal footing with businesses from these countries as Canadian goods will no longer have a federal sales tax embedded in the final price.

The replacement of the Manufacturers' Sales Tax with the GST in January, 1991 reinforces other federal government initiatives to improve economic efficiency, raise productivity and increase living standards in Canada. Among these initiatives were:

- the Canada-U.S. Free Trade Agreement which, by securing access to the American market, will permit Canadian industries to operate at a larger scale;

- deregulation of the energy and transportation sectors; and,

- the personal income tax and corporate income tax reforms in 1988.

Why Harmonize the Provincial E&H Tax

The introduction of the GST in January, 1991 by the federal government represented a major change in Canada's sales tax system. There has been much speculation about its economic impact and how the provinces, including Saskatchewan, will apply their own sales taxes.

Without harmonization, there would effectively be a dual sales tax in the Province, with two different reporting requirements, different dates to report the tax, two different government offices with which to deal, different tax auditors, and different laws with which to comply. The need particularly for small businesses to handle the GST and the provincial sales tax separately represents a major complication and an additional cost to business operations. Having goods taxed under the federal GST but not under the provincial E&H Tax could cause much confusion and uncertainty to consumers and businesses alike.

A combined federal-provincial sales tax would remove the complexities associated with the operation of a dual sales tax. There would be a uniform tax base, a single set of exemptions, uniform requirements and only one government office to deal with. There would be no need to hire additional tax auditors. This would save government millions of dollars in tax administration cost. It would eliminate much of the source of complexity and confusion, therefore, reducing compliance costs.

Harmonization would provide millions of dollars of additional savings for Saskatchewan businesses since both the federal sales tax and the provincial sales tax on business inputs would be eliminated. By removing the tax from the final price of Saskatchewan goods sold abroad, harmonization would make Saskatchewan export goods more competitive, benefiting exporters and export-related service industries in the Province.

Removing the tax on capital goods would benefit capital-intensive industries. Large capital projects that are currently under construction, like the SAFERCO plant, the bi-provincial upgrader at Lloydminster and the Meadow Lake pulpmill, would realize millions of dollars in cost savings due to the removal of the sales tax on capital inputs.

By lowering capital and other production costs, harmonization would enhance the profitability of Saskatchewan businesses. These benefits of lower production costs could be passed backwards to employees in the form of higher wages or more jobs for Saskatchewan people, or they could passed forward to consumers in the form of lower prices.

LONG-RUN ECONOMIC BENEFITS

The Sources of Gains

The removal of the sales tax on capital goods will encourage investment. The elimination of the sales tax on exports will be positive for export growth. Identical treatment of imports and domestic goods will help domestic producers.

Harmonization of the provincial sales tax with the GST will strengthen the economy of the Province by eliminating the distortions and disincentives to growth created by the federal Manufacturers' Sales Tax and the provincial E&H Tax. Since the tax base is broadened and the tax is applied equally to goods and services, it will lead to a better allocation of resources.

Analyzing the economic effects of harmonization requires, therefore, an economy-wide perspective and an economic model that is able to quantify all these benefits across broad sectors or industries of the economy. The most appropriate approach for this type of analysis is general equilibrium modelling.

General Equilibrium (GE) Analysis

A GE model portrays an economy that is essentially cost-driven. The federal Manufacturers' Sales Tax and the provincial E&H Tax were significant elements of the cost of production of businesses in the Province. A GE model can be used to measure the changes in the production of broad sectors and industries of the provincial economy as a result of lower production costs brought about by the removal of the federal and provincial sales taxes on capital and other business inputs.

Basically, the approach involves the generation of two paths for the provincial economy, one with the change in the provincial sales tax and another without the change (the base case). The impact is measured as the difference between the two paths, with the base case used as the reference period.

The advantage of using the GE model is that it captures the workings of the entire economy in a theoretically consistent framework, providing insights into the complex interactions of all the sectors in response to a major change in the tax system. It can reveal the effects of a policy change on the allocation of resources in the economy and the distribution of real output gains among the sectors of the provincial economy as a result of this reallocation of resources.

The GE approach allows for the analysis and measurement of the long-run changes in potential output or gross domestic product arising from sales tax reform. It does not permit, in and of itself, an analysis of the transition path from the old system of sales taxation to the new one. The whole analysis is based on what mathematicians and economists call comparative statics, meaning a comparison of the changes in production of all the sectors of the economy given two different tax systems.

As well, a GE model is based upon a given set of sectors or industries defining the structure of the economy. Within each of these sectors or industries, there could be hundreds or thousands of specific lines of economic activities being affected differently, some positively, others negatively. The GE model cannot isolate the effects for very specific industries falling within any of the broader sectors or industries identified in the model. It can capture only the overall impact for those sectors defined in the model.

The John Whalley Study

John Whalley is one of the pioneers in the field of general equilibrium modelling. In 1987, when sales tax reform was first announced, he co-authored a paper with Bob Hamilton on the economic impact of tax reform.

Using two closely related national GE models - one large but static (single-period) model with considerable industry, product and household detail and another, smaller but more dynamic model that is able to capture the time path of changes in savings and investment - Whalley and Hamilton concluded that a value-added tax would improve the efficiency of Canada's sales tax system in the long-run. The efficiency gains would be small, but significant, with the Canadian real GDP rising between 0.31 per cent and 0.34 per cent.

The Federal Finance Study

The federal Department of Finance developed and used a regional GE model to measure the long-run economic consequences of a federal-only GST and a joint federal-provincial national sales tax. Federal Finance's model has much in common with John Whalley's GE model but there are four important features that distinguish it:

- the explicit modelling of Canada as a small, open economy;
- the fact that each region of the country is separately identified;
- the linkage between the cost of capital in production and the price of capital goods; and,
- the detailed representation of the distortions of the federal Manufacturers' Sales Tax.

Federal Finance completed its study of the national and regional impact in 1989, based on the 9 per cent federal-only GST. The following were the results of the federal analysis.

FEDERAL FINANCE STUDY

LONG-RUN ECONOMIC IMPACT
(Percentage Change in GDP)

Federal-Only GST*

CANADA

Sector	
Primary	3.3
Food, Beverages & Tobacco	0.3
Manufacturing	1.4
Construction	1.6
Transportation & Utilities	3.1
Services	1.6
Total	**1.4**

THE REGIONS

Atlantic	1.4
Quebec	1.0
Ontario	1.1
Prairies	2.5
British Columbia	1.3
Canada	1.4

* Based on 9 per cent GST rate.

Last year, the federal Department of Finance, upon the request of Saskatchewan Finance, extended the analysis to include the consequences of federal-only tax reform and combined federal-provincial reform, on Saskatchewan's economy, based on the lower federal tax rate of 7 per cent.

FEDERAL FINANCE STUDY

LONG-RUN ECONOMIC IMPACT OF HARMONIZATION
(Percentage Change in GDP)

SASKATCHEWAN

Sector	Federal-Only Reform*	Provincial Reform*	Combined Impact
Primary	4.2	2.8	7.0
Food & Beverage	0.4	0.2	0.6
Manufacturing	1.2	0.6	1.8
Construction	1.8	1.7	3.5
Transportation & Utilities	3.3	2.8	6.1
Services	2.7	1.7	4.4
Total All Industries	**2.3**	**1.6**	**3.9**

* Based on 7 per cent federal tax rate and 7 per cent provincial sales tax rate.

As the results show, and in light of the fact that the federal GST rate was lowered to 7 per cent, Saskatchewan's potential real economic growth is boosted by approximately 3.9 percentage points, with the federal-only tax reform package raising the Province's potential growth rate by 2.3 percentage points and the provincial reform adding another 1.6 percentage points.

Saskatchewan's primary industries and the transportation and utilities sectors get the biggest boost. Saskatchewan's primary industries are composed of agriculture and related agriculture service industries, fishing, hunting and trapping, logging and forestry, and resource activity such as the potash, uranium, oil and natural gas industries.

The food and beverage sector is composed of food processing industries, including dairy products, soft drinks and brewery products.

Manufacturing includes all other industries involving processing of goods like pulp and paper, iron and steel, machinery industries, transportation equipment, electrical and electronic products, petroleum refining, chemical products, and many others.

Construction involves residential building and development, industrial and heavy construction such as the construction of power plants, factories, oil and gas pipelines, highways, waterworks and power and telecommunication lines.

The transportation and utilities sector is composed of all forms of air, land and water transportation like the public transit system, the taxicab industry and trucking. It also includes storage and warehousing, radio and television broadcasting, telecommunications and electric power and gas distribution.

Hotels and restaurants are classified under the general heading called services, which includes wholesale and retail trade, banking and financial services, real estate operators, hotels and restaurants, government services, amusement and recreational services, personal and household services and others.

It is important to note that within any of these general categories or broad industry classifications, there may be winners and losers. For instance, it is possible that hotels and restaurants and other retail establishments or shops delivering personal services would be hurt initially by the new tax. But, to the extent that these establishments also purchase inputs, they would benefit from input tax credits. At the same time, other components of a particular sector may gain considerably. Consequently, the results indicate the overall impacts, on a sector-by-sector basis.

Economic models use highly aggregative data based on broad industrial classifications and are incapable of revealing changes at the establishment level. The results they present relate to the total impact on those sectors.

Input-Output Analysis

An Input-Output (IO) model of the Saskatchewan economy was used to estimate the employment impact of the federal-provincial sales tax harmonization, based on the long-run 1.6 percentage point increase in the Province's potential growth rate. The December 1990 economic forecast of the Saskatchewan economy was used as the benchmark to compute the incremental employment impact.

An IO model describes the flow of goods and services in the economy. It has a characteristic checkerboard form in which each sector has a horizontal row which shows the flows of outputs to all the sectors and to final demand consisting of personal expenditures on goods and services, government expenditures, investment, exports and so on, and a vertical column that shows where production inputs are coming from, both intermediate goods like raw materials and unprocessed or semi-processed goods, and primary inputs like capital and labour.

The rows and columns of an IO table give the cumulative effects of the linkages of all the sectors in the provincial economy. For example, an increase in the demand for processed food products will naturally require increased output of the food processing industries, but it will also require increased output of agriculture. The increase in agricultural output, in turn, will call for an increase in the output of industries producing agricultural inputs such as chemicals and pesticides, which in turn will call for an increase in the output of industries producing inputs to the chemical and pesticides industries, and so on.

The results of the IO analysis show an increase in employment arising from provincial sales tax harmonization of 4,085 jobs and another 1,576 spin-off jobs generated, for a total of 5,661. It should be noted that this employment benefit is a long-run impact to be realized only after the economy has fully adjusted to the tax changes and one which would likely take place over a number of years.

These jobs will be distributed as follows:

SASKATCHEWAN INPUT-OUTPUT STUDY

EMPLOYMENT IMPACT

Sector	Number of Jobs	Per Cent Increase From 1990
Primary	1,127	1.2
Food & Beverage	91	0.8
Manufacturing	110	0.8
Construction	589	2.8
Transportation & Utilities	350	1.1
Services	3,394	1.2
Total	**5,661**	**1.2**

Most of the job gains would be in services, reflecting the fact that the services sector, composed of the wholesale and retail trade, finance, insurance and real estate, government services, personal and other business services, is such a large group of industries in Saskatchewan, representing approximately two-thirds of the entire provincial economy. The services sector has greater weight than any other sector in the IO model of the Saskatchewan economy.

As seen above, primary industries, like agriculture and mining, also receive a proportionate share of the employment benefits, rising by 1,127 or 1.2 per cent, roughly one-fifth of the total number of jobs generated, and about the same rate of increase as that of services. The construction industry has the highest rate of increase at 2.8 per cent.

The employment impact may be further enhanced by the establishment of a Revenue Canada regional office in Saskatchewan. The Governments of Saskatchewan and Canada will jointly operate the harmonized sales tax. For 1992, the federal government will conduct all operational functions, except the audit function, which the Province will direct. To assist Saskatchewan residents in dealing with the harmonized sales tax, Revenue Canada will establish a regional office in the Province.

The exact employment impact of the new regional office has not been finalized. Negotiations are underway to ensure that Saskatchewan residents receive sufficient assistance in dealing with the harmonized sales tax while at the same time benefiting from new employment opportunities. The details of these negotiations will be announced as soon as an agreement is reached.

TRANSITIONAL PROBLEMS

How quickly the benefits from a federal-provincial sales tax harmonization will be realized will depend on a number of critical factors, including the wage pass through, impact on prices and interest rate movements. It is not possible to say precisely how long it will take to realize these benefits.

To determine what these transitional issues are, and how important they are, the ten provinces contracted the Conference Board of Canada in 1989 to undertake a study on the impact of the new tax.

The Conference Board Study

The Conference Board of Canada used a large macroeconometric model to analyze the impact on the provinces of a 9 per cent federal GST. The Conference Board analysis focused on the federal tax package alone and assumed that the provinces would not be involved.

The key conclusion of the Conference Board is that the GST will be inflationary only in the first year, with Saskatchewan's inflation rate, based on the CPI, approximately 2.4 percentage points higher in 1991. The inflationary impact will progressively wither away in 1992 and 1993, but the general price level will still be about 1.7 to 2.0 percentage points higher.

Improvements in exports and the primary industries boost Saskatchewan's real GDP by 0.8 percentage points in 1991, and as much as 1.3 percentage points and 1.6 percentage points in 1992 and 1993, respectively.

With inflation and generally higher prices, however, personal disposable income and personal expenditure on goods and services will decline. As well, higher unemployment is anticipated in the transition period.

But these losses will be experienced only from 1991 to 1993. By 1994, the benefits from sales tax reform begin to offset the losses.

CONFERENCE BOARD STUDY
IMPACT OF A 9 PER CENT GST ON SASKATCHEWAN
(Percentage Point Difference)

The Transition Period

	1991	1992	1993
CPI	+2.4	+2.0	+1.7
Unemployment Rate	+0.1	+0.3	+0.1
Real Personal Disposable Income	-1.8	-1.2	-0.7
Real GDP	+0.8	+1.3	+1.6

The Conference Board's 7 Per Cent Option

The Conference Board study on the 7 per cent option discussed the national impact only. Nonetheless, it demonstrated that lowering the federal rate to 7 per cent will alleviate many of the concerns over inflation, unemployment and lower consumer spending that arise from the 9 per cent tax.

In particular, the 7 per cent option is much less inflationary and, therefore, the cut in real personal disposable income is much less. This means that the economy rebounds very quickly in 1991 because the efficiency gains from foreign trade dominate the cut in consumer spending from the beginning.

Consumer spending itself is stronger in 1992 and thereafter, in contrast to the 9 per cent case where consumer spending recovers only in 1993. Business investment will also be higher in 1992.

The Conference Board results show that a 7 per cent tax rate would increase Canada's real GDP by 0.4 percentage points in 1991, 0.9 percentage points in 1992 and 1.1 percentage points in 1993, making the transition almost immediate.

CONFERENCE BOARD STUDY

IMPACT OF 7 PER CENT OPTION
(Percentage Point Difference)

CANADA

	1991	1992	1993
CPI	+0.8	-0.2	-0.1
Unemployment Rate	-0.0	-0.1	-0.2
Real Personal Disposable Income	-0.7	-0.4	-0.2
Real GDP	+0.4	+0.9	+1.1

Comparison With Other Studies

There are many other published studies on the GST's impact during the transition period, indicating different impacts. Differences in approach, models and assumptions used account for the discrepancy in numbers presented. Some models focus on a quicker investment response from lower capital costs associated with the change over to the GST. Other models place a relatively greater weight on the negative consequences of the tax on consumption.

It is significant to note that most of the studies dealing with the transition problems used econometric modelling techniques, such as the Conference Board model and others, while studies that measured the long-term benefits used general equilibrium models, such as the federal Finance study and the John Whalley paper.

The obvious difference between these two major approaches is that econometic models are rarely able to capture the efficiency gains derived from a fundamental shift in tax policy. Efficiency gains, if included in the analysis, would add to the positive benefits of the new tax.

Notwithstanding these differences, however, all studies conclude that the GST will yield long-term economic benefits. They differed on the magnitude of the benefits and with respect to how quickly the economy will realize these benefits.

Wood Gundy

Wood Gundy predicted a painful transition arising from the 9 per cent federal GST. Wood Gundy's study focused on the overall Canadian economy. It estimated that the 9 per cent tax would produce a direct 3.0 percentage point increase on the CPI and reduce real GDP by approximately 0.6 per cent in 1991.

Wood Gundy also analyzed what would happen if the tax rate was lowered from 9 per cent to 7.5 per cent. Under a 7.5 per cent tax, the economy experiences a smoother transition and reaps small but immediate benefits in terms of employment and real GDP growth. According to the Wood Gundy calculations, Canada's real GDP would rise 0.3 percentage points in 1991 and the overall CPI inflation increase is modest, at 1.4 percentage points, if the rate is reduced to 7.5 per cent from 9 per cent.

Overall, Wood Gundy concludes that the GST will bring significant and positive benefits to the Canadian economy. The changes brought about by tax reform will increase potential GDP by 1.4 per cent once the economy is fully adjusted to the tax changes.

Informetrica

Informetrica, a private economic "think-tank" based in Ottawa, examined the macroeconomic consequences of the GST using an Input-Output model of the Canadian economy. Informetrica constructed six different cases but, for illustrative purposes, only the 7 per cent case is presented.

Under the 7 per cent option, Informetrica forecasted only a modest increase of 0.9 percentage points in the CPI in 1991, and a real GDP increase of 0.2 percentage points in the same year. Investment and productivity would improve almost immediately and no major stresses were predicted in the transition period.

INFORMETRICA STUDY

SEVEN PER CENT GST IMPACT
(Percentage Point Difference)

CANADA

	1991	1995
CPI	+0.9	+0.1
Real Disposable Income	-0.7	-0.4
Real GDP	+0.2	+0.3

University of Toronto Institute for Policy Analysis

The University of Toronto study is radically different of all the published studies on the GST. Using the FOCUS macroeconomic model of the Canadian economy, the University of Toronto forecasts that a 9 per cent GST would worsen macroeconomic performance for several years.

Despite a dire prediction, however, the study concludes that the long-term economic effects of the new tax would be favourable as the increase in capital formation would boost overall productivity in the economy.

UNIVERSITY OF TORONTO

GST'S IMPACT ON CANADA
(Percentage Points Difference)

	1991	1992	1993	1994	1995	1996
CPI	+2.5	+0.2	0.0	+0.1	0.0	0.0
Unemployment Rate	+0.4	+0.6	+0.5	+0.4	+0.2	+0.1
Real GDP	-0.7	-0.8	-0.5	-0.3	0.0	+0.1

SUMMARY AND CONCLUSIONS

Harmonization will simplify the administration of the sales tax. A more efficient tax administration will save the government millions of dollars in tax administration costs. For businesses, it means reduced compliance costs by having to deal with only one government office, one auditor, a uniform set of tax rules and the same reporting requirements.

Harmonization will ensure that businesses will not pay any sales tax on purchases of business inputs. Lower production costs will encourage production. Higher productivity will lead to increased wages.

The elimination of the tax on exports will be positive for export growth. By removing the tax on capital goods, harmonization will also promote investment. New investment creates new job opportunities.

Lower production costs will provide the basis for higher profits which could be passed on to labour in the form of higher wages or passed forward to consumers in the form of lower prices.

Federal-provincial sales tax harmonization holds out the promise of substantial long-term benefits for Saskatchewan. It will strengthen the provincial economy by eliminating distortions and disincentives created by the federal Manufacturers' Sales Tax and Provincial E&H Tax. A harmonized sales tax will lead to a better allocation of resources because of its wider base. It will also work towards an improved foreign trade balance by making imports more expensive and exports less expensive.

In the aggregate, Saskatchewan's industrial structure and make up of its economy will dictate to a large extent the impact that the federal-provincial harmonization will have. The importance of agriculture, mining, and of exports in general, to the Saskatchewan economy, will boost economic prospects in the Province. The positive stimulus that the new sales tax will provide to the Province's largely capital-intensive and export-oriented industries suggests that Saskatchewan will gain from harmonization.

As our review shows, there are significant economic benefits to be derived from harmonization. The Province's economic growth potential will be enhanced by it, creating in the process more than 5,000 new jobs.

Other studies support our conclusions that GST harmonization will yield long-term economic benefits. Analyses by the Conference Board of Canada, Informetrica, Wood Gundy and the University of Toronto, while focusing on the impact of the 7 per cent federal-only tax for Canada during the transition period, all reach the same conclusion, namely, that the long-term economic effects of the tax shift will be favourable and, that lowering the tax rate from 9 per cent to 7 per cent will help the economy avoid many of the major stresses that were previously forecast for the transition period.

It is difficult to forecast precisely how long it will take to realize these economic benefits but as our revised economic forecasts indicate, the Province's real GDP growth will increase from -0.3 per cent, without the policy changes, like the sales tax harmonization and the new farm safety net programs, to 2.2 per cent in 1992, suggesting that the adjustment period will be quite brief, if not almost immediate.

SASKATCHEWAN FINANCE
REVISED SASKATCHEWAN ECONOMIC FORECASTS

	1991	1992
Without Harmonization, GRIP and NISA		
Real GDP (%)	-0.5	-0.3
Personal Disposable Income (%)	-3.7	+3.0
Realized Net Farm Income ($ Millions)	-156	-298
With Harmonization, GRIP and NISA		
Real GDP (%)	-0.5	+2.2
Personal Disposable Income (%)	+2.2	+3.8
Realized Net Farm Income ($ Millions)	330	400

In conclusion, sales tax harmonization will strengthen the economy by eliminating the distortions and disincentives to economic growth created by the federal Manufacturers' Sales Tax and provincial sales tax. Because the sales tax base is widened and the tax is applied equally to most goods and services, harmonization will lead to a better allocation of resources. By removing the tax on business inputs, it will lower production costs and enhance the profitability of Saskatchewan businesses, providing incentive to invest and expand production.

Harmonization will make the sales tax system easier to administer. It will cut compliance costs, particularly for small businesses, since there will be a uniform tax base, a uniform set of tax rules, one set of tax requirements, a single auditor, only one government office to deal with and one set of reporting requirements.

FAIR TAXATION

FAIR TAXATION

INTRODUCTION

In a discussion paper entitled **A Dialogue on Saskatchewan Income Tax Reform**, Saskatchewan identified the principles that a sound tax system should embody. The tax system should be:

- consistent with widely accepted notions of equity, so that individuals and families see fairness in the system;
- consistent with overall social and economic policy objectives;
- simple enough that taxfilers do not generally require professional assistance to prepare their tax returns;
- a relatively stable source of government revenue; and,
- in harmony with the federal tax structure.

It is not possible for one form of tax to reconcile these often conflicting principles. For example, reliance on personal income taxes as the sole source of tax revenue would require income tax rates so high that the tax system would create a significant disincentive to work. This would offend an important economic goal, which is the encouragement of the work incentive in the interest of economic growth.

Tax rates must also remain competitive with other provincial jurisdictions. A broadening of the sales tax base under harmonization permits the Government to raise necessary revenues to finance GRIP and NISA without increasing provincial tax rates (see Appendix B).

Further, dependence upon one form of taxation jeopardizes the principal of revenue stability. For example, a government relying solely on corporate income taxes would face a revenue crisis when the economy weakens and corporate profits are low.

A comprehensive tax regime which taxes income, consumption and the capital of corporations is best able to achieve the principles of a sound tax system. All three forms of taxation play an integral and interdependent role in ensuring fairness and equity in Saskatchewan tax policy. The E&H Tax is an important component of the Saskatchewan tax system.

Another important factor to consider when determining the fairness of the provincial tax system is the consideration of the charges levied by provincial government agencies for such services as car insurance, telephone, home heating and electricity.

Saskatchewan maintains a favourable standing in relation to other provinces for combined taxes and charges. A married couple with two children enjoys the lowest taxes and charges in the country at the $20,000 income level. At the $40,000 income level, they have the fourth lowest personal taxes and charges in the country (see Appendix C).

A single parent family with two children living in Saskatchewan also has the lowest taxes and charges in the country at the $20,000 income level, while at the $30,000 income level, the single parent family has the third lowest taxes and charges.

IMPACT OF HARMONIZATION

Harmonization of the E&H with the federal GST enhances the principles of a sound tax system.

- **Harmonization will encourage economic growth.**

  Economic growth will result from the elimination of distortions and disincentives to growth, the encouragement of capital investment, the increased competitiveness of domestic goods and the elimination of government duplication in sales tax administration.

- **Harmonization will increase the stability of government revenue.**

  The broadening of the provincial sales tax base will result in sales tax revenue growth that will track the growth of the provincial economy. In addition, the economic growth resulting from harmonization will strengthen the capacity of the overall provincial tax system.

- **Harmonization will simplify compliance for taxfilers.**

  Under the dual sales tax environment created with the introduction of the GST, businesses are required to comply with two separate tax systems. Harmonization will simplify the compliance effort for businesses since there will be only one set of tax rules, one tax administration, one filing period and one auditor.

- **Harmonization will promote harmony with the federal tax structure.**

  Harmonization will reduce the administrative costs caused by the duplication of administrative efforts by the federal and provincial governments. Additionally, it will reduce the compliance costs for businesses.

- **Harmonization will strengthen the fairness of the tax system.**

  The principle of fairness is strengthened by the implementation of income tax measures announced as part of harmonization. The measures promote equity by relating the liability of tax to a resident's ability to pay.

  - The introduction of the Saskatchewan Family Tax Credit compensates low income families for the additional taxes resulting from harmonization.

  - The increase in the high income Surtax from 12 percent to 15 percent increases the progressivity of the overall tax system by increasing the share of taxes paid by high income earners.

In 1988, the Government indicated that a careful review of the relative merits of the principles of a sound tax system must be undertaken when judging the success of any reform initiative. The harmonization of the E&H Tax with the federal GST promotes a sounder tax system by enhancing these principles.

HARMONIZATION IMPACT

ON FAMILIES

HARMONIZATION IMPACT ON FAMILIES

INTRODUCTION

The Government of Saskatchewan has traditionally recognized family circumstance and income level in its tax system.

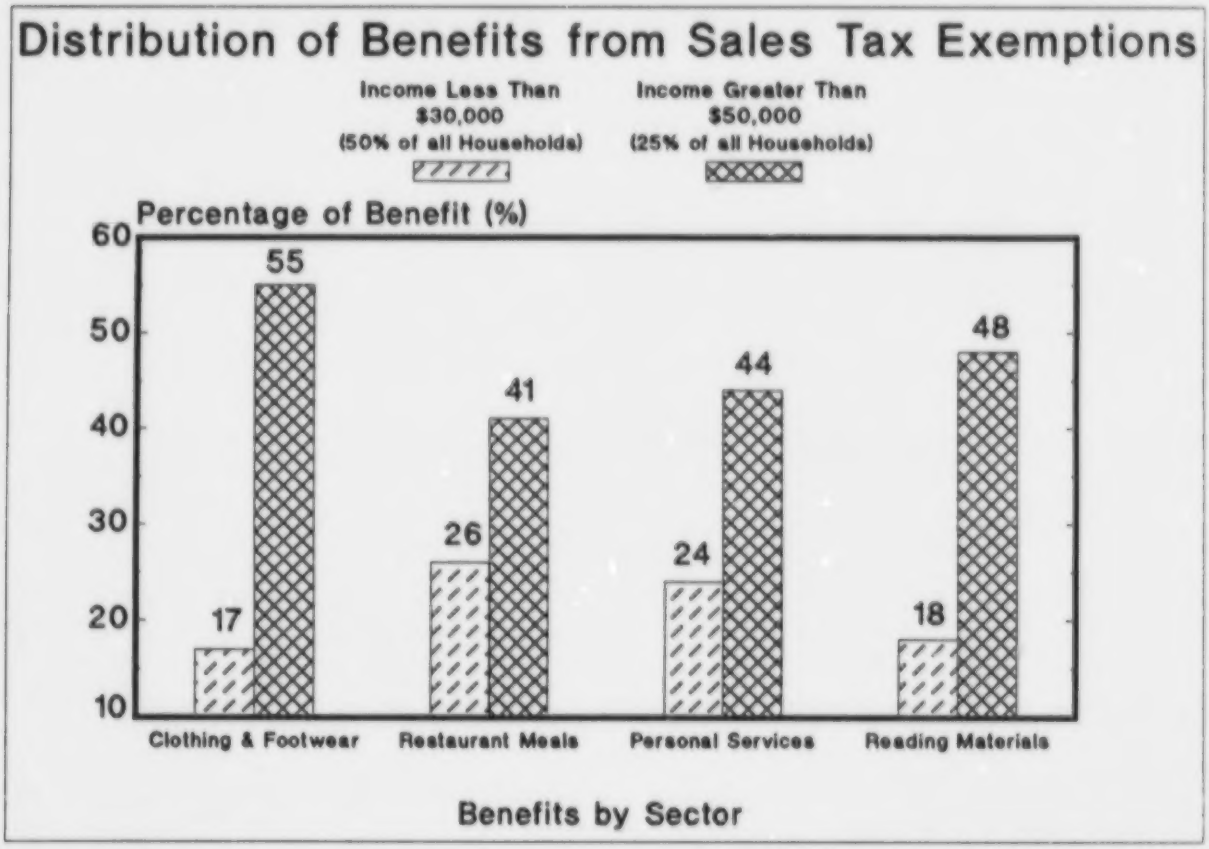
The E&H Tax has provided exemptions for many family essentials, including food, clothing and most utilities. The Saskatchewan Tax Reduction has also lowered the income taxes payable for over 335,000 Saskatchewan residents by about $52 million annually.

The previous exemptions for family essentials under the E&H Tax reduced the taxes payable by lower income families. However, they also provided a similar benefit to all other consumers, including non-residents and high income earners.

On average, upper income earners spend much more on goods such as restaurant meals, clothing, personal services and reading materials, with the result that exemptions of this nature are an inefficient means of offsetting the tax burden of families earning modest incomes. Tax policies of this nature are difficult to sustain when governments are facing mounting fiscal pressures.

An analysis of various types of spending, including services not currently subject to tax, shows that the majority of benefits from sales tax exemptions accrue to the Province's more affluent families. The following table shows that the Government spent $126 million in 1990 on exempting clothing, footwear, restaurant meals, personal services and reading materials. Only $27.5 million, or 22 per cent of the total, is attributable to families earning under $30,000 per year, even though these families comprise 50 per cent of Saskatchewan households.

In contrast, almost $60 million of tax savings are provided to families earning over $50,000, or just under 50 per cent of the total benefits, even though the families make up only 25 per cent of Saskatchewan households.



FAMILY TAX CREDIT

As part of sales tax harmonization, the Government has replaced these tax exemptions with the Family Tax Credit, a $35 million refundable sales tax credit that effectively removes much of the added provincial taxes for lower income families resulting from the broadening of the sales tax base to match the GST base.

Benefits under the Family Tax Credit are dependent upon the size of the family. For example, a family with two children will receive a maximum tax credit of $400, while a family with four children will benefit up to $800 per year.

Family size also determines the maximum level of income that can be earned before tax credit benefits are lost. For the 1991 tax year, a single income family with two children can earn up to $32,800 before the Family Tax Credit is removed completely, while a family with four children will earn up to $40,800 before credit benefits are reduced to zero.

SINGLE INCOME FAMILY

Number of Children	Phase Out of Tax Credit*
1	$ 28,800
2	32,800
3	36,800
4	40,800
5	44,800
6	48,800

SINGLE PARENT FAMILY

Number of Children	Phase Out of Tax Credit*
1	$ 32,800
2	46,800
3	40,800
4	44,800
5	48,800
6	52,800

*1990 income threshold; $4,000 child care expenses assumed for a single parent.

The Family Tax Credit targets families with children. This permits the Government to largely remove the effects of sales tax harmonization for families on modest incomes.

By focusing on families with children, no offsets have been provided to single individuals and married couples who have no children. The Government recognizes that these individuals will face a higher tax burden from sales tax harmonization.

However, increasing the number of beneficiaries of the Credit would have significantly increased the cost of the Family Tax Credit. Increasing the number of beneficiaries of the Credit, while maintaining the cost, would have resulted in less support to families with children. The Government chose, instead, to direct provincial assistance to families with children and to use the remaining proceeds from harmonization for agricultural support and the reduction of the provincial debt and deficit.

Impact on Typical Households

Consumption is dependent upon a number of factors, including:

- level of family income;
- family circumstance; and,
- individual spending priorities.

As a result, the impact of harmonization on each family will be different. The effect of other tax initiatives introduced as part of harmonization are also significant.

The Family Tax Credit removes much of the added taxes for families living on modest incomes, while increasing the high income Surtax by 25% adds to the progressivity of harmonization.

The following tables show that the proposed measures are highly favourable to families with children. These tables do not show the benefits families will derive from other tax and expenditure measures that are automatically adjusted to compensate for the harmonization initiative and the introduction of the federal GST.

For example, the analysis does not include the benefits from indexation of the personal income tax system, which would recognize an increase in prices caused by sales tax reform. Nor does it consider the automatic increase in social assistance payments for shelter and other necessities that result from higher federal and provincial sales taxes.

Finally, the analysis does not take into consideration the beneficial effects of harmonization on the provincial economy. In the medium term, sales tax reform will increase income and employment which, in many cases, will compensate for the additional amount of sales tax resulting from harmonization.

TWO INCOME FAMILY, 2 CHILDREN

Total Income	Change In PST*	Change In Income Tax	Net Change
$ 15,000	$ 305	$ (400)	$ (95)
25,000	410	(400)	10
30,000	535	(340)	195
40,000	650	--	650
50,000	835	--	835
100,000	1,145	90	1,235

*Source: Federal Department of Finance and includes both the direct and indirect sales tax.

ONE INCOME FAMILY, 2 CHILDREN

Total Income	Change In PST*	Change In Income Tax	Net Change
$ 15,000	$ 305	$ (400)	$ (95)
25,000	410	(390)	20
30,000	535	(140)	395
40,000	650	--	650
50,000	835	31	866
100,000	1,145	273	1,418

SINGLE PARENT, 2 CHILDREN

Total Income	Change In PST*	Change In Income Tax	Net Change
$ 15,000	$ 210	$ (400)	$ (190)
25,000	350	(400)	(50)
30,000	515	(340)	175
40,000	640	--	640
50,000	775	16	791
100,000	1,085	257	1,342

*Source: Federal Department of Finance and includes both the direct and indirect sales tax.

SINGLE INDIVIDUAL

Total Income	Change In PST*	Change In Income Tax	Net Change
$ 15,000	$ 205	$ --	$ 205
25,000	320	--	320
30,000	415	--	415
40,000	475	3	478
50,000	610	48	658
100,000	695	292	987

*Source: Federal Department of Finance and includes both the direct and indirect sales tax.

SECTORAL IMPACT

OF HARMONIZATION

SECTORAL IMPACT OF HARMONIZATION

INTRODUCTION

GST harmonization will strengthen the economy of Saskatchewan by:

- eliminating distortions and disincentives to growth;
- increasing the competitiveness of domestic products;
- encouraging capital investment;
- reducing compliance costs; and,
- eliminating government duplication.

A broader tax base that is applied equally to goods and services will lead to a more efficient allocation of resources.

Harmonization will also eliminate the tax induced price distortions that result from the taxation of inputs. Consumers currently pay different effective tax rates (the percentage that tax represents on the final selling price of a good) on comparable products depending on the choice of inputs used in the production process.

The removal of the sales tax on capital goods, through the input tax credit mechanism, will encourage investment. Taxing business inputs increases the cost of capital goods which decreases the amount of investment in Saskatchewan. This, in turn, reduces Saskatchewan's economic growth and impedes job creation.

As an export dependent province, Saskatchewan must be competitive in the world economy. Harmonization's complete elimination of the sales tax on exports will encourage export growth.

Under the present E&H Tax, about 60 per cent of all provincial sales tax revenues are derived from the taxation of business inputs. While Saskatchewan does not directly tax exports, the taxation of business inputs increases the price of export products. This places Saskatchewan businesses at a competitive disadvantage with businesses in other countries and provinces (particularly Alberta, which does not levy a sales tax).

A neutral basis for valuation of imports and domestic goods, which will occur under a harmonized tax system, will help domestic producers. Presently, the price of domestic goods reflects the taxation of business inputs that went into the production of the goods. Many imports are not subject to this tax. The removal of tax from business inputs, resulting from harmonization, will level the playing field between domestic goods and imports.

GST harmonization will also reduce compliance costs. One of the fundamental principles of a sound sales tax system is that it minimizes both compliance costs for businesses and administration costs for government. Under the dual sales tax environment created with the introduction of the GST on January 1, 1991, businesses are required to comply with two separate tax systems. Separate tax systems have led to a duplication of administrative efforts by the federal and provincial governments.

The Canadian Federation of Independent Business has estimated that the administrative savings for businesses in Saskatchewan which will result from harmonization could be in the tens of millions of dollars annually. These savings have not been taken into account in the Government's economic growth estimates respecting harmonization.

PRIMARY INDUSTRIES

Description

Saskatchewan's primary industries accounted for approximately 16 per cent of provincial output in 1989, with agriculture accounting for over half of all primary industry activity.

The primary sector in Saskatchewan can be broken down into the following main categories:

- agriculture (and fishing)
- forestry
- mining (including petroleum and natural gas)

Primary industries tend to be highly capital intensive, meaning they rely heavily on machinery and equipment to produce output. As well, most of Saskatchewan's primary sector output is destined for international markets where price competition is extremely fierce. Small changes in the cost of production can make the difference between exporting at a profit and exporting at a loss.

The E&H Tax currently provides significant exemptions respecting business purchases for the primary sector, in order to acknowledge the competitive nature and large capital investment required by this sector. Agriculture is the primary beneficiary of this policy, as almost all "farm use" goods are exempt from provincial sales tax.

While this list of exempt items provides benefits to the primary sector, production costs still reflect the indirect tax which is embedded in the price of inputs. As well, many inputs are still subject to provincial sales taxation which also increases the cost of inputs.

Higher production costs in Saskatchewan reduce our competitiveness internationally. The current provincial sales tax system impedes the ability of the primary sector to grow which, in turn, restricts job growth and slows the pace of diversification in the Province.

Full harmonization with the GST, commencing in 1992, will permit the complete removal of provincial sales tax from business purchases. This will significantly improve the competitiveness of our exported products generated by the primary sector.

Impact of Harmonization

Harmonization of Saskatchewan's sales tax with the federal GST ensures that businesses in Saskatchewan will be in a better position to compete in Canada and internationally since they will receive a refund for all tax paid on their inputs. As well, the cost of compliance will be reduced since businesses will not be required to deal with two separate administrative systems.

The net effect of harmonization on the primary industry is estimated to be an increase in real output of 2.8 per cent. This will translate into an additional 1,127 jobs in the Province.

Impact on Agriculture:

For our agricultural industry, which generally has very little control over the price it receives for its output, harmonization is especially important since any reduction in cost provides an improvement in profitability and international competitiveness.

The decision to remove basic groceries from the GST tax base gave rise to a different type of concern for the farm sector. A potential cash-flow problem presented itself since farmers were not required to collect tax on their output, yet they were going to have to pay tax on their inputs. They would have been eligible for input tax credits on tax paid on their inputs, but the time lag between when the farmers paid tax and when that they would receive an input tax credit meant that the farmer could run into cash-flow problems.

In light of this, the harmonized sales tax gives special consideration to the agricultural sector by providing for the tax-free purchase of major farm inputs.

A short list of examples of the tax-free inputs includes:

- combines
- tractors with 60 PTO hp or more
- fertilizers
- pesticides
- discers
- grain bins
- feed (20 kg or more)
- swathers
- cultivators
- seed
- herbicides
- seeders
- rockpickers
- augers

While the tax free farm list under harmonization is not as comprehensive as Saskatchewan's current E&H Tax exemptions for farm use purchases, the tax-free inputs are provided in addition to the input tax credits for taxable farm purchases.

Farm purchases of construction materials, tools and non-exempt farm vehicles, which are currently subject to the E&H Tax, will become eligible for a refund of provincial sales tax under harmonization.

Impact on Resources:

Saskatchewan's petroleum and natural gas industries face stiff international competition causing them to be price takers for their output. The effect on this industry is similar to the effect on the agriculture industry.

Since much of their product is exported, the removal of provincial sales tax from inputs provides new incentives for the industry to expand.

For the oil and gas sector, the decision to invest in Saskatchewan rather than Alberta or the United States has become more attractive, since the cost to invest will decline by as much as 3 to 4 per cent under harmonization.

For the potash and uranium industries, which are highly capital intensive and currently experiencing weak prices for their output, the effect of removing sales tax from their inputs translates into significant cost savings.

For example, the potash industry alone is expected to save $7 to $10 million in direct sales tax on their inputs. This saving amounts to about 1 per cent of the industry's total value of production. A saving of this magnitude provides a large boost to the industry. This cost saving will translate into increased investment, enhanced production and more jobs.

FOOD, BEVERAGE AND TOBACCO INDUSTRY

Description

Saskatchewan's food, beverage and tobacco industry is generally considered to be a sub-category of the manufacturing sector. However, this industry will experience changes under full harmonization that warrant separate analysis.

Most of the output of this industry is consumed domestically, with the exception of the food processing industry which does export some of its output.

Under the existing E&H Tax, all components of the food, beverage and tobacco industry bear some amount of sales tax on their business purchases. With full harmonization and the corresponding introduction of input tax credits, this tax burden will cease to exist. This will result in lower costs for the industry which, in turn are expected to generate modest growth in the industry.

Impact of Harmonization

The food, beverage and tobacco industry is expected to grow by 0.2 per cent due to harmonization. This growth is smaller than that expected for other industries, since most categories of this industry were previously either exempt from sales tax or were taxed under a different provincial Act than The Education and Health Tax Act. Corresponding to the small increase in output will be a small increase in employment of 91 persons in the industry.

Each of the components of the food, beverage and tobacco industry will experience changes as a result of sales tax harmonization.

Food Industry:

Food industries are generally considered to include all meat, poultry, fish, fruit and dairy processing. Under the GST, these categories are all tax-free since they are classified as basic groceries intended for human consumption.

Under Saskatchewan's harmonized sales tax, the same definitions of basic groceries will be used, and the same tax-free treatment will apply to these products. The major change with respect to these industries is that the input tax credit mechanism will remove tax which they previously had to pay on their business inputs.

Beverage Industry:

Beverage industries are generally considered to include all soft drink and brewery products. Under the GST, these products are taxable. With harmonization, they have also become taxable under The Education and Health Tax Act. Soft drinks had not previously been taxed in Saskatchewan, but brewery and other alcohol products were taxed under The Liquor Consumption Tax Act.

Under harmonization, the Liquor Consumption Tax has been reduced from 10 per cent to conform with the 7 per cent rate of the E&H Tax, with Liquor Board Markups increasing proportionately to ensure that liquor prices remain unchanged and provincial revenues are protected. Under full harmonization in 1992, the Liquor Consumption Tax will be removed and all alcohol products will be taxed under the harmonized sales tax.

With the introduction of input tax credits, these areas are also expected to achieve modest growth after the implementation of full harmonization.

Tobacco Industry:

Tobacco products, which are also subject to the GST, have been brought into the E&H Tax base as part of harmonization. The provincial tax will be levied on top of the existing Tobacco Tax which currently applies to all tobacco products. No changes will be made as a result of harmonization to The Tobacco Tax Act, although adjustments to the taxation of cut tobacco and tobacco sticks were announced at the same time as harmonization.

MANUFACTURING

Description

Saskatchewan's manufacturing sector competes both internationally and with the rest of Canada. The total value of manufacturing shipments in 1989, including food, beverage and tobacco, was $1.3 billion. This represents about 7 per cent of Saskatchewan's output. The manufacturing industry is one of the fastest growing sectors in Saskatchewan. Output from the industry in 1989 was 40 per cent higher than in 1985 and 14 per cent higher than in 1988.

The manufacturing sector in Saskatchewan is diverse, encompassing a wide range of producers including:

- fabricated metal
- machinery
- non-metallic mineral
- chemical
- clothing industries
- wood industries
- furniture and fixture
- paper products
- primary metal
- printing, publishing, allied products
- rubber products industries
- electrical and electronic products
- other manufacturing industries
- transportation equipment
- leather and allied products
- refined petroleum and coal products
- primary textile industries
- plastic product industries

A tax on business inputs increases the cost of capital goods and thereby decreases the amount of investment in Saskatchewan. This has the effect of reducing Saskatchewan's economic growth and impeding the creation of jobs.

Under a dual sales tax environment where Saskatchewan would continue to apply the E&H Tax, producers would be required to pay provincial tax on equipment, furnishings and many supplies which are purchased. This would include, for example: machinery and equipment used directly in the manufacture of production of goods, office equipment and supplies, computers and transportation vehicles.

With two tax systems, the manufacturer would have to record each purchase and remit separate reports to each level of government.

The following table shows what a manufacturer would face under a dual sales tax environment:

PST AND GST STATUS
Selected Inputs

Item	PST	GST
Containers (refundable)	7%	rebate
Jigs	7%	rebate
Machinery	7%	rebate
Tools	7%	rebate
Computer Equipment	7%	rebate
Computer Software	7%	rebate
Cash Registers	7%	rebate
Polishing Wheels	7%	rebate
Vehicles	7%	rebate
Office Supplies	7%	rebate
Furniture	7%	rebate
Safety Clothing	7%	rebate
Safety Equipment	7%	rebate

One of Saskatchewan's manufacturing industries, IPSCO Inc., made the following observations about the federal Manufacturers' Sales Tax in its submission to the Standing Senate Committee on Banking, Trade and Commerce on Wednesday July 25, 1990:

- removal of the Manufacturers' Sales Tax will materially improve the competitive position of many of IPSCO's customers with respect to their ability to sell products;

- failure to remove the Manufacturers' Sales Tax will keep them at a competitive cost disadvantage relative to imported products and materially impair their ability to capitalize on the export opportunities that the Free Trade Agreement with the United States has opened up; and,

- failure to remove the Manufacturers' Sales Tax will restrict opportunities for IPSCO to make further investment and employ people here in Canada.

The same points hold true about the removal of provincial sales tax from business inputs. In order for Saskatchewan's manufacturing industry to be competitive with imported goods and in the international market, input tax credits must be provided for business inputs consumed in the Province.

Impact of Harmonization

One of the main advantages of a harmonized tax system is that it effectively removes all taxes on business inputs through the input tax credit mechanism, allowing Saskatchewan manufacturers to better compete both globally and domestically.

The new SAFERCO fertilizer plant, the Husky Upgrader at Lloydminster and the Meadow Lake sawmill will save millions of dollars due to the removal of sales tax from their inputs. Savings of this magnitude provide compelling enticement for other businesses to locate in Saskatchewan.

Saskatchewan's manufacturing sector is expected to grow by approximately 0.6 per cent as a result of harmonization. Growth of this magnitude translates into 110 more jobs in this industry.

Sales tax harmonization promotes economic efficiency and competitiveness by removing the distortions created by a dual sales tax environment and it is much simpler to administer since there would be only one set of rules to deal with.

CONSTRUCTION INDUSTRY

Description

The construction industry in Saskatchewan accounted for about 5 per cent of Saskatchewan's total output in 1989.

The industry is composed of the following categories:

- building development and general contracting
- industrial and heavy construction
- trade contracting
- service industries incidental to contracting

One of the major concerns identified by the construction industry was the expected impact of the GST on the affordability of housing.

In response to concerns raised by the Canadian Home Builders' Association and others, the federal government introduced a housing rebate which compensates new home purchasers for the additional tax paid on new homes.

The rebate formula has the following characteristics:

- for homes priced at or below $350,000, the rebate is 2.5 per cent of tax paid;

- for homes priced between $350,000 and $450,000, the rebate is calculated as follows:

$$\text{Rebate} = \$8{,}750 \times \frac{(450{,}000 - \text{house price})}{100{,}000}$$

- for homes prices over $450,000, no rebate is provided.

Impact of Harmonization

Sales tax harmonization is expected to cause the construction industry to increase output by 1.7 per cent. The increase in output will translate into an additional 589 jobs in the industry in Saskatchewan.

One of the best methods of ensuring that the construction industry grows in Saskatchewan is to ensure that the economy of Saskatchewan grows. Business groups and representatives from all over the Province have informed the Government that harmonizing the provincial sales tax with the GST removes barriers to growth and encourages job creation in the Province.

Saskatchewan is characterized as having some of the most modest home prices in the country. This, combined with the effect of removing provincial sales tax from business inputs, means that extending the sales tax to new homes will have only a modest effect on the price of new homes.

To ensure that housing continues to be affordable in Saskatchewan, the Government is committed to consulting with affected groups to determine the effect of harmonization on the housing sector.

TRANSPORTATION AND UTILITIES

Description

Transportation and utility costs have a large influence on the ability of Saskatchewan industries to compete in the international market. The transportation and utilities industry accounted for about 11 per cent of Saskatchewan's output in 1989.

The industry is composed of the following categories:

- transportation industries
- pipeline transportation industries
- communication and other utility industries
- other utility industries

The transportation and utilities industry is highly capital intensive, requiring significant capital expenditures on an on-going basis.

The rail line industry, for example, has undergone significant change recently, and more change is anticipated in the near future, in an attempt to reduce costs and remain competitive. As well, the pipeline industry in Saskatchewan continues to lay more pipeline to transport oil and natural gas to Saskatchewan residents and to the export market.

These industries will be major beneficiaries from the cost savings associated with sales tax harmonization.

Impact of Harmonization

The transportation and utilities industry is expected to be one of the major beneficiaries from having sales tax removed from investment goods. It is expected to grow by 2.8 per cent due to Saskatchewan's harmonization initiative. 350 new jobs will be created due to the anticipated increase in economic output.

The gain in output is attributable to the lower cost of capital goods that results when provincial sales tax is removed from capital goods.

The reduction in cost in the transportation and utilities industry assists other Saskatchewan industries, particularly export dependent industries like the agriculture and natural resource industries, to increase their output.

SERVICE SECTOR

Description

Saskatchewan's service sector accounted for approximately 61 per cent of provincial output in 1989 and is one of the fastest growing sectors in the economy both provincially and nationally.

The service sector is composed of a wide range of commercial activities including:

- wholesale trade industries
- retail trade industries
- finance and insurance industries
- real estate operator and insurance agent industries
- business service industries
- government service industries
- education
- health
- accommodation
- other service industries

Restauranteurs, hoteliers and the tourism industry are all included in this sector.

Prior to harmonization, most services were exempt from the E&H Tax. However, similar to other industries in Saskatchewan, inputs used by service industries were taxable.

By taxing business inputs, rather than taxing the final selling price, the tax system had a number of adverse impacts on the economy.

- The tax paid on these inputs became a cost of production which had to be reflected in the final selling price of the good or service produced, reflected in lower profits for the business or reflected in lower wages for labour.

- Since the E&H Tax on services was indirect, its effect on the price of services varied depending on the retailer's mark-up and amount of taxable inputs purchased. This distorted the relative prices of goods by providing an unfair advantage to some goods and services while providing an unfair disadvantage to other goods and services. This led to a tax induced misallocation of resources in the economy.

- In addition, taxing business inputs raises the cost of capital goods and reduces investment which decreases output in the economy and impedes the economy's ability to diversify and create jobs. This translates into a restriction on the generation of income by residents which, in turn, restricts the demand for goods and services offered by the service sector.

Impact of Harmonization

The harmonized tax system will tax services in the same manner as goods. Both the service and non-service industries will be eligible for a full input tax credit for all sales tax paid on their business inputs. This will result in significant cost savings for both the service and non-service industries. This will be especially important to businesses investing in capital improvements where a significant amount of expenditure is required. As well, it will level the playing field between goods and services and remove the distortions created by the tax system.

The harmonized tax system will eliminate sales taxes paid by businesses which will promote investment and competitiveness - two vital factors in enhancing economic growth and diversification.

Harmonization of the provincial sales tax with the GST is expected to cause the Service Industry to increase output by 1.7 per cent. Since the service industry is relatively labour intensive, by far the largest gain in employment occurs in this sector. The increase in output translates into 3,394 new jobs.

Clearly some sectors of the service industry will grow more than others and the transitional effects on each sector will also vary from sector to sector.

RETAIL SECTOR (BORDER COMMUNITIES)

Description

Saskatchewan retail businesses located in communities near the Saskatchewan/Alberta border and the Saskatchewan/United States border are experiencing a difficult time competing with businesses on the other side of the border.

Businesses and consumers ordinarily try to minimize their expenditures. Tax differentials, therefore, provide a clear incentive for both businesses and consumers to purchase goods and services in the lowest tax rate jurisdiction possible.

However, other factors also influence a person's decision on where to spend. To a large extent, the transportation cost associated with purchasing goods and services outside Saskatchewan and bringing them back for consumption within the Province negates the financial benefit associated with being able to purchase goods in lower tax rate jurisdictions.

In addition, a certain amount of cross-border shopping occurs with little regard for differences in tax rates between jurisdictions. For example, residents of one jurisdiction may travel to another jurisdiction to visit family or friends or simply to experience new sites and their spending decisions are not materially affected by tax or economic factors.

Canada/United States Border:

Cross border shopping into the United States is gaining increased importance and recognition across the country. The reasons for its emergence can be a attributed to a number of factors:

- the higher Canadian dollar value;
- the taxation policies of all jurisdictions, both federal and provincial;

- the competitive positions of businesses located on both sides of the border;

- the impact of the Bank of Canada's interest rate policy and the traditionally lower wages paid in the United States;

- the varying ways in which the United States and Canada fund social programs; and,

- the increased emphasis United States businesses have placed on advertising into Saskatchewan markets.

In the past, the issue of cross border shopping has manifested itself in different ways. For example, the border problem was reversed with United Sates consumers travelling to Canada when the value of the Canadian dollar was considerably lower.

There are currently 13 Ports of Entry across Saskatchewan. They have experienced a significant increase in activity over the past year.

This increase has occurred even though the GST is levied on goods brought back into Canada that exceed the following importation limits:

Length of Stay in The U.S.A.	Duty-GST-Free
24 hours or less (day trips)	$ 0.00
More than 24 hours	20.00
More than 48 hours	100.00
Seven days or more (once per year)	300.00

Saskatchewan/Alberta Border:

Saskatchewan retail businesses located near the Alberta border have experienced an on-going disadvantage because of Alberta's ability to not levy a sales tax.

In recognition of the problem for communities situated at or near the border, the Province has instituted a competition assistance program for sales of tobacco products and gasoline so that retailers are better able to compete against Alberta-based merchants.

The Government's decision to expand the sales tax base in 1991 to apply to goods such as restaurant meals and clothing provides added incentive for consumers to purchase goods outside of Saskatchewan. Broadening Saskatchewan's tax base in this manner increases the number of goods that Saskatchewan residents can now find at lower effective prices on the other side of the border and increases the tax savings available to cross-border shoppers.

Impact of Harmonization

As far as business purchases are concerned, the border problem with both the United States and Alberta is completely corrected by Saskatchewan's decision to harmonize with the GST effective January 1, 1992. The input tax credit mechanism provides a refund of all Saskatchewan tax paid by businesses in Saskatchewan. This effectively removes any advantage that businesses located in lower tax rate jurisdictions may have had over their Saskatchewan counterparts.

However, the problem persists for consumers. The expansion of the sales tax base, both in April 1991 and January 1992, increases the incentive for consumers to purchase their goods and services outside of Saskatchewan.

The Province is currently investigating a broad range of options which may alleviate the border problem.

However, since the day-to-day administration of the provincial sales tax will be handled by the federal government after January 1, 1992, any option chosen to address the problem will likely have to involve the federal government.

The Province has not yet received a formal commitment from the federal government to begin collecting provincial sales tax at Canada-United States border crossings. However, the federal government has been made aware that this problem is placing border communities at risk from the loss of sales and Ottawa has made it clear that the Province's decision to harmonize its sales tax with the GST makes it possible to achieve provincial tax collections at the border.

Aside from arranging with the federal government to have provincial sales tax collected at border crossings, the Province is considering a number of other options to address the problem including:

- pressuring the federal government to lower the value of the Canadian dollar and lower interest rates. This would improve the competitiveness of all Canadian businesses and help businesses in border communities to regain their competitive edge;

- developing a public awareness campaign to emphasize the importance of the public's commitment to Saskatchewan's communities - at least a couple of eastern Canadian communities have already done this; and,

- expanding the use of zones of reduced tax rates at or near the Alberta and United States border to protect Saskatchewan-based businesses.

The Government of Saskatchewan recognizes that a border problem exists for certain communities. The Government is committed to consulting with border communities and with the federal government to further investigate alternatives which will alleviate this problem.

RESTAURANT INDUSTRY

Description

In December, 1987, the federal Minister of Finance announced that the reformed federal sales tax would not apply to basic groceries. While the principle of providing an exemption ran contrary to the basic principle of maintaining a broad tax base, it was felt that basic groceries were a special case which required special treatment.

Once the decision was made to provide special treatment to basic groceries, attention had to be turned to the definition of basic groceries and how broad the exemption would apply. A balance had to be struck between the principle of maintaining a comprehensive tax base (which permits a low tax rate) and the acknowledgement of the special significance of certain products.

The federal government's decision to exempt basic groceries and tax restaurant meals means that the Government of Saskatchewan has no choice but to provide the same treatment to basic groceries and restaurant meals in light of the decision to harmonize the provincial sales tax with the GST.

E&H Tax Extended to Restaurant Meals April 1, 1991:

The decision to extend the provincial sales tax to restaurant meals on April 1, 1991, brings Saskatchewan's tax system more in line with other provincial tax systems. As of April 1, 1991, British Columbia is the only province that specifically exempts restaurant meals from its sales tax (Alberta does not have a sales tax).

Restaurant meals are taxable across Canada under the GST (even in Alberta).

The following table shows the tax rates and the exemption levels effective in each province.

TAXATION OF RESTAURANT MEALS IN CANADA

Province	Rate	Exemption Level
GST	7%	No exemption allowed
British Columbia	-	Meals are exempt
Alberta	-	No sales tax
Saskatchewan	7%	No exemption allowed
Manitoba	7%	Meals under $6.00 exempt
Ontario	8%	Meals under $4.00 exempt
Quebec	8%	No exemption allowed
New Brunswick	11%	Meals under $1.00 exempt
Nova Scotia	10%	Meals under $2.00 exempt
P.E.I.	10%	No exemption allowed
Newfoundland	12%	No exemption allowed

Impact of Harmonization

The Province's decision to extend the tax to restaurant meals April 1, 1991 was influenced by the Minister of Finance's pre-Budget consultations which demonstrated clearly that Saskatchewan residents wanted the provincial deficit and debt reduced in a reasonable way. It was also apparent, at the same time, that financial assistance had to be provided to the agricultural sector.

The Government views the Province's participation in the agricultural support programs, GRIP and NISA, as vital to the long-term future of agriculture and rural Saskatchewan and, therefore, to the future of the entire province. However, participation in these programs would have added $125 million to the provincial deficit in 1991-92 unless complementary measures were introduced.

Agreeing to combine the E&H Tax with the GST into one jointly-administered tax meant that restaurant meals were going to be taxed beginning on January 1, 1992. The decision to extend the E&H Tax to restaurant meals for the last nine months of 1991 was based upon the need to finance the Province's commitment to GRIP and NISA.

Harmonizing with the federal GST will provide benefits to all businesses, including restaurants. Restaurants will benefit from the complete removal of sales taxes on their input costs and harmonization will improve the overall competitiveness of the Province's economy.

The Government of Saskatchewan is confident that the transitional impact of this measure will lessen as the economy stabilizes and improves. We are also confident that the key to a healthy restaurant industry in this province is an overall healthy economy that is efficient and competitive in the world's marketplaces.

TOURISM INDUSTRY

Description

The tourism industry is vital to Saskatchewan. In 1989, tourists spent over $300 million in the Province, of which a large share of those expenditures originate from non-residents.

Federal Treatment:

In recognition of the importance of the tourism industry to Canada, the federal government is providing foreign visitors with a rebate of GST paid. The nature of this rebate depends upon the type and the amount of tourist purchases that are made in the country.

- A rebate of the full 7 per cent GST is available to foreign visitors for purchases of short-term accommodation and most consumer goods (as long as they are to be used outside Canada, and are removed from the country within 60 days).

- No GST rebate is available for services consumed in Canada, goods left in Canada, meals and restaurant charges, camping and trailer-park fees, and purchases of alcoholic beverages, tobacco products and automotive fuels.

- The minimum claim for visitor rebates of GST is $7 (equal to $100 worth of taxable purchases), and the maximum cash rebate claim is $500 Canadian per day (available at duty free shops). For rebate claims in excess of $500, visitors must mail completed claim forms directly to Revenue Canada.

Impact of Harmonization

Under the current E&H Tax, the tourism industry is not granted any special status. Tourists must pay the E&H Tax on all taxable purchases and are not eligible for a rebate of this tax.

The dual sales tax environment in place in Saskatchewan during 1991 leaves the tourism industry in the awkward position of having to collect and remit two separate taxes. Tourists can apply for a rebate of federal GST, but cannot apply for a rebate of provincial E&H Tax.

The Government is currently reviewing its position with respect to provincial tourism rebates. One option being seriously considered would be that when the provincial sales tax is harmonized with the GST in 1992, the Province would mirror the federal rebates, so that the tourism industry will only have to comply with one set of tax rules.

Generally, this option would require the Province to conform with the federal GST rules concerning rebates of sales tax to foreign visitors. However, some special problems arise for which the GST has set no precedent and these must be addressed by the Province in the coming months:

- the question arises as to whether the federal minimum and maximum rebates would be appropriate for the smaller taxation jurisdiction of the Province;

- rebates for provincial taxes paid on short-term accommodation would have to be decided;

- an important question for the Province is whether Canadians who are non-residents of Saskatchewan would be eligible for rebates of provincial tax, or whether the provincial rebate would be restricted to non-Canadians; and,

- closely related to this question would be the problem of Saskatchewan towns and villages which are located close to interprovincial and/or international borders.

The Province has committed to consultations with the tourism industry to examine the impact of harmonization during the coming months. Part of this review will involve the treatment of the specific components of tourism services, including transportation.

MUNICIPALITIES, UNIVERSITIES, SCHOOLS AND HOSPITALS

Description

Municipalities, universities, schools, and hospitals (the MUSH sector) are provided with special treatment under the GST.

In December, 1987 the federal Minister of Finance made a commitment that federal sales tax reform would impose no greater tax burden on municipalities, universities, schools, and hospitals than these institutions incurred prior to reform.

Based on consultations with representatives of the MUSH sector and an analysis of the tax liability of these organizations under the Manufacturers' Sales Tax and the expected liability under the GST, the following partial rebates for each sector have been established:

Organization	Percentage GST Rebate
Municipalities	57%
Universities and Colleges	67%
Schools	68%
Hospitals	83%

This commitment was made in recognition of the manner in which these institutions are funded and to acknowledge the non-commercial nature of these organizations.

Without the rebate, these institutions would have incurred an increase in federal sales tax liability even though these organizations were subject to a certain amount of tax under the Manufacturers' Sales Tax.

Impact of Harmonization

When Saskatchewan harmonizes its sales tax with the GST on January 1, 1992, these organizations will be required to pay provincial sales tax on a broadened range of goods and services. This will increase their overall sales tax liability.

In recognition of the increased sales tax liability the Government, in its 1991-92 Budget, has made a commitment to:

- provide an additional $1.5 million to educational institutions and libraries in 1991-92 to offset the application of provincial sales tax to reading materials; and,

- protect municipalities, universities, schools and hospitals from increases in provincial sales tax liability resulting from harmonization.

The Government will continue to consult with these institutions in an effort to determine the level of additional provincial taxes to be faced by the MUSH sector as a result of harmonization and to determine the most appropriate means of offsetting that burden.

CHARITIES AND NON-PROFIT ORGANIZATIONS

Description

Charities and non-profit organizations are provided with special treatment under the GST.

Federal Treatment:

Charities and non-profit organizations are required to pay GST on their purchases. In recognition of their non-commercial nature, many of their sales are not taxable. However, they must charge GST on sales which are of a commercial nature.

They are required to charge GST on sales of a commercial nature to ensure that the tax system does not provide an unfair advantage to charities and non-profit organizations which may be in direct competition with other commercial businesses.

They are also eligible for a full input tax credit for all GST paid on purchases used in generating a taxable supply.

In recognition of their special role in Canadian society, the federal government provides charities and government funded non-profit organizations with a rebate equal to 50 percent of their GST liability.

Provincial Treatment:

Under the current provincial E&H Tax system, charities and non-profit organizations are not provided with any special status. They currently bear sales tax on their purchases and are not provided with any direct offsetting compensation.

Impact of Harmonization

When the provincial sales tax system is harmonized with the GST, these organizations will be liable for the provincial sales tax in a manner similar to that of the GST. That is, they will pay tax on their purchases and charge tax on supplies of a commercial nature. They will also be eligible for input tax credits for tax paid on inputs used to generate a taxable supply.

The Government has made a commitment to consult with these organizations to determine the impact of harmonization.

CONCLUSION

CONCLUSION

Progress To Date

The Government presented details of the harmonization initiative to the public in the document entitled **Reform of Saskatchewan's Provincial Sales Tax** on February 20, 1991.

This document outlines the Government's strategy to introduce tax reform in a fair and progressive manner. It announced the introduction of the Family Tax Credit to offset the impact of sales tax reform on families earning modest incomes. It also announced a 25 per cent increase in high income Surtax to ensure that upper income earners share progressively in the tax cost associated with provincial tax reform.

The Government is also in the process of investigating with other provincial governments the opportunity to reform the personal income tax system, so that it is simpler and more attuned to provincial interests. This examination is being chaired by the federal government and it is expected that progress will be reported in the Fall of 1991.

Consultation Process

During its examination of provincial sales tax reform, the Government has undertaken a broad range of public consultations.

The consultation process began with the formation of an advisory committee of Saskatchewan individuals that represented a broad cross-section of the provincial economy. Agencies represented on the advisory committee included the following:

- Canadian Federation of Independent Business
- Society of Management Accountants
- Consumers' Association of Canada
- IPSCO Inc.
- Institute of Chartered Accountants
- Producers Pipelines' Inc.
- Regina Chamber of Commerce
- Saskatchewan Chamber of Commerce
- Saskatchewan Home Builders' Association
- Saskatchewan Wheat Pool
- Sask Sport Inc.
- Western Canadian Wheat Growers' Association
- International Brotherhood of Electrical Workers
- Private citizens

Many of the recommendations of the advisory committee have been followed in constructing the proposed design of harmonization.

1. **Administrative Practices**

   The Government has made changes to its administrative practices that permit the consistent application of the provincial sales tax and the GST.

2. **Application of Tax "Beside" the GST**

   The Government has decided to forgo $25 million per year in tax revenue by levying the provincial sales tax "beside" the federal GST.

3. **Fully Harmonized Sales Tax by 1992**

The GST advisory committee unanimously recommended that, first and foremost, the Government endeavor to participate in a joint federal-provincial sales tax as soon as possible, with the objective of full harmonization by 1992 or earlier.

4. **Provincial Sales Tax Rate**

The GST advisory committee advised the Government that the provincial sales tax rate should be lowered to reflect the broader sales tax base under harmonization.

The Government was faced with the difficult choice of following this advice or maintaining the tax rate at 7 per cent and using the added revenues to finance the Province's commitment to GRIP and NISA. The Government felt it could not finance its support for agriculture through greater borrowing and it was therefore necessary to maintain the sales tax rate.

Since that time, the government has received many hundreds of letters and submissions from the Saskatchewan public, representatives of the private and public sectors and from non-residents including other governments (see Appendix D). This input from interested parties has assisted the Government in finalizing its design of the harmonized sales tax.

Legislative Process

The Government will pass an Act to amend The Education and Health Tax Act that introduces:

- expansions in the sales tax base; and,
- the removal of the federal GST from the provincial tax base.

The Government will also pass an Act to amend The Income Tax Act, which introduces:

- the Family Tax Credit;
- an increase to the high income Surtax; and,
- an increase to the income tax rate for larger corporations.

The Government hopes that this legislation will be passed into law as expeditiously as possible, in order to remove taxpayer and retailer uncertainty about the status of the tax and to provide legal authority to make the July installments of the Family Tax Credit to families earning modest incomes.

The Government is also proceeding with the preparation of a Bill that will introduce the fully harmonized sales tax for 1992. This legislation will introduce many new concepts in provincial taxation, including:

- a means to tax services, including transportation, financial, personal and repair services;
- a means to introduce "input tax credits" for Saskatchewan businesses; and,
- a means to provide offsets to particular segments of the provincial economy, including municipalities, universities, schools and hospitals.

The Government is proceeding cautiously in developing this legislation, as a variety of constitutional, legal, administrative and equity issues must be considered. It is this area of policy development that the Government has received the most input from interested parties.

It is the Government's expectation that a draft Bill that introduces the harmonization legislation will be finalized for public release in late Spring. This will provide the public an opportunity to comment on the contents of the Bill over the Summer, so that a final Bill can be presented to the Saskatchewan Legislature for passage in the Fall.

APPENDICES

APPENDIX A

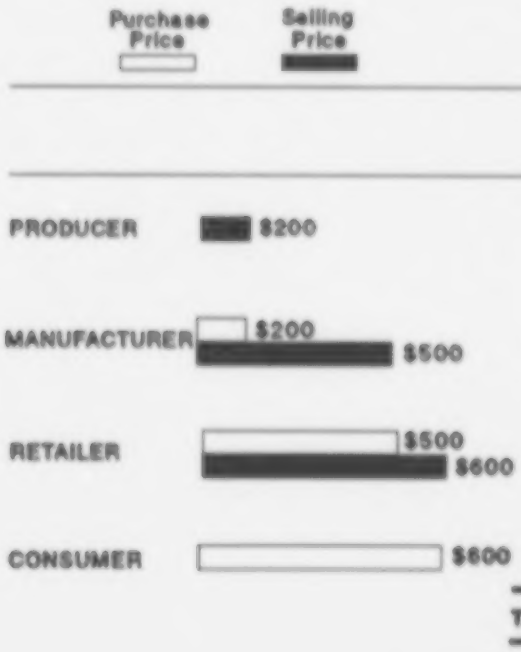
HOW SASKATCHEWAN'S NEW SALES TAX WILL WORK

HOW SASKATCHEWAN'S NEW SALES TAX WILL WORK

When Saskatchewan's sales tax becomes fully harmonized with the GST on January 1, 1992, it will become a multi-staged tax. While businesses throughout the production-distribution cycle, including retailers, will charge provincial tax on their domestic sales, they will also be able to claim a refundable credit - known as an "input tax credit" - for any tax paid on their purchases of goods and services used in the course of doing business.

Saskatchewan's new sales tax will therefore permit the full recovery of sales tax paid by commercial operations, thereby improving their competitiveness domestically and internationally. Harmonization will result in a provincial sales tax saving of about $260 million per year for businesses operating in the Province.

MULTI-STAGE OPERATION OF HARMONIZED SALES TAX



	Tax on Selling Price	Input Tax Credit	Net Tax Paid
PRODUCER	$28	--	$0
MANUFACTURER	$70	$28	$0
RETAILER	$84	$70	$0
CONSUMER	--	--	$84
Total tax remitted to government			**$84**

- Although businesses pay tax on their inputs at each stage in the production-distribution chain, all tax is removed from inputs through the input tax credit mechanism.
- The result is that the consumer is ultimately responsible for the tax.

The harmonized tax will apply to a broad range of goods and services. However, there are some goods and services which will be "zero-rated", or free from tax, including:

- basic groceries;
- prescription drugs;
- medical devices;
- most agricultural products;
- major purchases by farmers, such as combines and fertilizer; and,
- exported goods and services.

Others goods and services will be "exempt" from the direct application of the tax, including:

- most health and dental care services;
- most educational services;
- long-term residential rents;
- sales of used housing;
- day care services;
- legal aid services;
- municipal transit;
- membership dues in charities and non-profit organizations; and,
- most goods and services supplied by charities and many supplied by non-profit organizations.

APPENDIX B

INTERPROVINCIAL COMPARISON OF TAX RATES

COMPARATIVE TAX RATES*

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Provincial Income Tax (% of Federal Basic Tax)	51.5	46.5	50.0	52.0	53.0	[a]	60.0	59.5	57.0[b]	62.0
Flat Tax (% of Net or Taxable Income)	0	0.5[c]	2.0[d]	2.0[e]	0	0	0	0	0	0
Payroll Tax (% of Gross Wages and Salaries)	0	0	0	2.25 over $1,200,000[f]	1.95 over $400,000[g]	3.45 over $0[h]	0	0	0	1.5 over $300,000[i]
Corporate Income Tax (% of Taxable Income)	9-14	6-15.5	10-15	10-17	10-15.5	3.5-15.0[j]	9-17	10-16	10-15	10-17
Corporate Capital Tax (% of Taxable Paid-up Capital)	2.0[k]	2.0[k]	0.5-3.0	0.5-3.0	0.3-0.8	0.5-0.9	3.0[k]	3.0[k]	3.0[k]	3.0[k]
Unleaded Gasoline (¢ per litre)	11.0	9.0	10.0	10.5[l]	11.3	10.0	12.7	13.8	13.6	12.4
Diesel Fuel (¢ per litre)	11.44	9.0	10.0	10.9[m]	10.9	8.6	13.7	16.4	13.8	13.5
Retail Sales (%)	6	Nil	7	7	8	8[n]	11	10	10	12
Cigarettes (¢ per 25)	159	175	167[o]	200[p]	120.75[q]	119[r]	234.5[s]	170[t]	225	132[u]
Hospital Insurance and Medical Services (Annual Premium)	$744 family $372 single	$624 family $312 single	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Pari-Mutuel (%)	7	5	10	9.5	7	9	11	11	8.5-15.5	11
Insurance Premiums (%)	2-4	2-3	2-3	2-3	2-3	2-3	2-3	3-4	3	4
Personal Income Surtax (%)	Nil	8% on Tax Over $3,500	15% on Tax Over $4,000	2% of Adjusted Net Income Over $30,000	10% on Tax Over $10,000	Nil	8% on Tax Over $13,500	10% on Tax Over $10,000	10% on Tax Over $12,500	Nil

*As at April 22, 1991.

COMPARATIVE TAX RATES - NOTES

a. Quebec levies its own income tax.

b. Prince Edward Island announced in its April 9, 1991 budget that provincial income tax will increase to 59% of Basic Federal Tax effective July 1, 1991, and to 59.5% effective January 1, 1992.

c. Alberta's flat tax applies to Taxable Income; in Manitoba and Saskatchewan, the flat tax applies to Net Income.

d. Manitoba's payroll tax is 2.25% of gross wages and salaries over $1,200,000; for gross wages and salaries between $600,000 and $1,200,000 the rate is 4.50% on the amount over $600,000; for gross wages and salaries under $600,000 the tax does not apply.

Ontario's payroll tax is 1.95% of gross wages and salaries over $400,000 and 0.98% of gross wages and salaries under $400,000.

In Quebec, all companies pay 3.45% of gross wages and salaries.

Newfoundland introduced a payroll tax at the rate of 1.5% on wages and salaries over $300,000 effective August 1, 1990.

e. Quebec's small business rate is 3.5%; large business rate is 6.3%; personal service corporation rate is 15.0%.

f. Applies to Banks, Trust and Loan Companies. Alberta introduced a Corporation Capital Tax on financial institutions effective April 1, 1990.

g. Fuel Tax rates for Manitoba will become effective at Midnight April 30, 1991, and Cigarette Tax rates will become effective at Midnight May 31, 1991.

h. Quebec began including the GST in its provincial retail sales tax base on January 1, 1991, resulting in a decrease in the effective retail tax rate to 8%; inclusion of GST in the provincial base and partial harmonization of the two taxes also contributed to lower effective provincial rates of tax on unleaded gasoline, diesel fuel and cigarettes in Quebec.

i. Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Newfoundland apply retail sales tax to tobacco.

APPENDIX C

INTERPROVINCIAL COMPARISON OF TAXES AND CHARGES

PERSONAL TAXES AND CHARGES: *Family at $20,000 Total Income*[a]

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Provincial Income Tax	$ 235	$ 0	$ 0	$ 0	$ 0	$ (75)	$ 273	$ 271	$ 264	$ 283
Tax Credits and Rebates	0	0	(388)	(270)	(60)	0	0	0	0	0
Health Premiums	744	588	0	0	0	0	0	0	0	0
Retail Sales Tax	346	0	575	541	614	719	647	606	579	912
Gasoline Tax	220	170	288	200	226	200	248	276	272	248
Total Taxes	$ 1,545	$ 758	$ 475	$ 471	$ 780	$ 844	$ 1,168	$ 1,153	$ 1,115	$ 1,447
Car Insurance	$ 994	$ 810	$ 619	$ 634	$ 1,330	$ 655	$ 744	$ 642	$ 553	$ 985
Telephone	191	141	125	133	174	162	151	198	167	158
Home Heating	735	543	654	823	859	1,274	1,693	1,419	1,628	1,640
Electricity	495	486	590	438	650	441	569	658	831	665
Total Charges	$ 2,415	$ 1,980	$ 1,988	$ 2,028	$ 3,013	$ 2,532	$ 2,957	$ 2,917	$ 3,179	$ 3,448
Total	$ 3,960	$ 2,738	$ 2,463	$ 2,499	$ 3,793	$ 3,376	$ 4,125	$ 4,070	$ 4,294	$ 4,891

[a]Estimate of 1991, as at April 22, 1991.

PERSONAL TAXES AND CHARGES: Family at $40,000 Total Income*

	British Columbia	Alberta	Sask-atchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Provincial Income Tax	$ 1,828	$ 1,629	$ 2,394	$ 1,925	$ 1,881	$ 1,493	$ 2,129	$ 2,112	$ 2,058	$ 2,200
Tax Credits and Rebates	0	0	0	(70)	0	0	0	0	0	0
Health Premiums	744	588	0	0	0	0	0	0	0	0
Retail Sales Tax	518	0	825	825	900	1,021	995	923	855	1,354
Gasoline Tax	220	170	200	200	226	200	248	276	272	248
Total Taxes	$ 3,310	$ 2,387	$ 3,419	$ 2,880	$ 3,007	$ 2,714	$ 3,372	$ 3,311	$ 3,185	$ 3,802
Car Insurance	$ 994	$ 810	$ 619	$ 634	$ 1,330	$ 655	$ 744	$ 642	$ 553	$ 985
Telephone	191	141	125	133	174	162	151	198	167	158
Home Heating	735	543	654	823	859	1,274	1,493	1,419	1,628	1,640
Electricity	495	486	590	438	650	441	569	658	831	665
Total Charges	$ 2,415	$ 1,980	$ 1,988	$ 2,028	$ 3,013	$ 2,532	$ 2,957	$ 2,917	$ 3,179	$ 3,448
Total	$ 5,725	$ 4,367	$ 5,407	$ 4,908	$ 6,020	$ 5,246	$ 6,329	$ 6,228	$ 6,364	$ 7,250

*Estimate of 1991, as at April 22, 1991.

PERSONAL TAXES AND CHARGES: Single Parent at $20,000 Total Income*

	British Columbia	Alberta	Sask-atchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Provincial Income Tax	$ 282	$ 72	$ 0	$ 0	$ 0	$ (90)	$ 329	$ 326	$ 318	$ 340
Tax Credits and Rebates	0	0	(300)	(245)	0	0	0	0	0	0
Health Premiums	744	588	0	0	0	0	0	0	0	0
Retail Sales Tax	346	0	575	541	614	719	647	606	579	912
Gasoline Tax	220	170	200	200	226	200	248	276	272	248
Total Taxes	$ 1,592	$ 830	$ 475	$ 496	$ 840	$ 829	$ 1,224	$ 1,208	$ 1,169	$ 1,500
Car Insurance	$ 994	$ 810	$ 619	$ 634	$ 1,330	$ 655	$ 744	$ 642	$ 553	$ 985
Telephone	191	141	125	133	174	162	151	198	167	158
Home Heating	735	543	654	823	859	1,274	1,493	1,419	1,628	1,640
Electricity	495	486	590	438	650	441	569	658	831	665
Total Charges	$ 2,415	$ 1,980	$ 1,988	$ 2,028	$ 3,013	$ 2,532	$ 2,957	$ 2,917	$ 3,179	$ 3,448
Total	$ 4,007	$ 2,810	$ 2,463	$ 2,524	$ 3,853	$ 3,361	$ 4,181	$ 4,125	$ 4,348	$ 4,948

*Estimate of 1991, as at April 22, 1991.

PERSONAL TAXES AND CHARGES: Single Parent at $30,000 Total Income*

	British Columbia	Alberta	Sask-atchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Provincial Income Tax	$ 1,116	$ 1,137	$ 1,503	$ 1,116	$ 1,148	$ 1,012	$ 1,300	$ 1,289	$ 1,256	$ 1,343
Tax Credits and Rebates	0	0	(240)	(145)	0	0	0	0	0	0
Health Premiums	744	588	0	0	0	0	0	0	0	0
Retail Sales Tax	438	0	723	715	762	895	885	797	749	1,163
Gasoline Tax	220	170	200	200	226	200	248	276	272	248
Total Taxes	$ 2,518	$ 1,895	$ 2,186	$ 1,886	$ 2,136	$ 2,107	$ 2,433	$ 2,362	$ 2,277	$ 2,754
Car Insurance	$ 994	$ 810	$ 619	$ 634	$ 1,330	$ 655	$ 744	$ 642	$ 553	$ 985
Telephone	191	141	125	133	174	162	151	198	167	158
Home Heating	735	543	654	823	859	1,274	1,493	1,419	1,628	1,640
Electricity	495	486	590	438	650	441	569	658	831	665
Total Charges	$ 2,415	$ 1,980	$ 1,988	$ 2,028	$ 3,013	$ 2,532	$ 2,957	$ 2,917	$ 3,179	$ 3,448
Total	$ 4,933	$ 3,875	$ 4,174	$ 3,914	$ 5,149	$ 4,639	$ 5,390	$ 5,279	$ 5,456	$ 6,202

*Estimate of 1991, as at April 22, 1991.

APPENDIX D

PROVINCIAL CONSULTATION ON HARMONIZATION

PROVINCIAL CONSULTATION ON HARMONIZATION

- Hotels Association of Saskatchewan
- VIA Rail Canada Inc.
- Air Transportation Association of Canada
- Investment Dealers Association
- Investment Corporation of Saskatchewan
- Saskatchewan Auto Dealers Association
- Coalition of Canadian Transport Associations and Carriers
- Saskatchewan Auctioneers Association
- Representatives of the Saskatchewan print media
- Saskatchewan Association of Broadcasters
- Federal Department of Finance
- Federal Revenue Canada
- Quebec Department of Finance
- PEI Department of Finance
- Federation of Saskatchewan Indian Nations
- Canadian Bankers' Association
- Independent Petroleum Association of Canada
- University of Saskatchewan
- University of Regina
- Canadian Petroleum Association
- Saskatchewan Graphic Arts Industries Association
- Saskatchewan Alliance Against Tax on Reading
- Certified General Accountants
- Society of Management Accountants
- Chartered Accountants of Saskatchewan

- Canadian Federation of Independent Business
- Prairie Implement Manufacturers Association
- Tourism Industry of Saskatchewan (TISASK)
- Alliance of Canadian Travel Associations - Saskatchewan
- Saskatchewan Meat Processors' Association
- Saskatchewan Musicians' Association
- Saskatchewan Restaurants' Association
- Retail Council of Canada
- Credit Union Central of Saskatchewan